

## **UAW Testimony to the Public Employee Health Care Reform Committee**

**December 3, 2009**

Chair Byrnes and members of the Committee, thank you for the opportunity to speak before you today.

My name is Adam Miller and I am a Senior Benefits Consultant at the UAW. The UAW represents tens of thousands of public employees and retirees in hundreds of bargaining units in Michigan and throughout the US. So it should come as little surprise that we are very focused on HB 5345 and the underlying proposal to consolidate public employee health care purchasing.

The UAW strongly opposes this particular approach to solving the state's long-term fiscal problems. For a variety of reasons, which I'll get into, we do not think this plan is ready for prime time. Even if it were, we reject the premise that increasing cost sharing for public employees and retirees should be a goal of public policy. In addition, we reject the dilution of our legal rights to collectively bargain over health care coverages.

Overall, we find serious problems with the cost and savings methodologies. For example, there is no valid cost baseline from which to calculate savings and manage program effectively. Using figures from the original white paper, up to 55% of the proposed savings can be wiped out simply by not knowing starting costs. How are policymakers going to seriously plan and budget with such uncertainty? Why would public employees buy-in to a scheme that doesn't assure their sacrifices make a difference?

We have many other technical and methodological concerns as to whether this plan can deliver what it promises. In this regard, we strongly concur with the analysis by Public Policy Associates which found the savings from efficiencies and economies of scale 'largely illusory.' We believe it is misleading at best to assert the public employee market is not substantially leveraged when, in fact, it is.

While there is undoubtedly room for additional leveraging and efficiencies, the upside is not as big as proponents claim. This plan needs to be brought down to earth.

A closer look at the financing shows that public employees are being asked to 'go first' when other key stakeholders -- like insurers, providers, and government -- have not been asked to bring up-front equity to the table. Based on the white papers, two-third of the savings (\$600 million) is estimated to come from benefit reductions and one-third (\$300 million) from efficiencies and leveraging. But when the bean counters get around to scoring this plan, they will put more value on benefit reductions -- because they generate real cash -- than any forward looking administrative efficiencies or economies of scale.

In short, public employee benefits are treated as a piggy-bank under this plan. While we are committed to doing what is fair and right to get state government on a sounder economic path, we will not buy a pig in a poke while other stakeholders sit on the sidelines. This is where we are today with this plan.

That said, we are encouraged the Committee is making cost data requests and establishing workgroups. (As an aside, the UAW was asked to provide information.

Since we are not the plan sponsor of any public employee plans, we referred the committee to the relevant employers). But in order to design, implement and operationalize a huge undertaking like this, the process must be driven by a technically sound, transparent approach using a qualified independent experts. We have not seen that commitment to date.

The plan raises conceptual and logical concerns issues as well. For example, we are puzzled as to why this plan undermines its own pooling concept by allowing groups to opt-out if their costs are lower. If there is a lower cost in the market, shouldn't the larger pool be getting it?

The answer is yes!

Our concern is that the opt-out will lead to 'cherry-picking' by insurers, which actually splits up risk pools. This is what is happening to the Blues in the individual market right now. Allowing opt-outs also reduces the power of leveraging. Bottom line is we see no reason to set the stage for these consequences by allowing local opt outs.

Finally, we strongly oppose the provisions in the plan that limit the union's ability to collective bargaining over coverage, benefits, cost, quality and access. These issues are highly inter-related and we regularly bargain over them. In fact, we have a due diligence obligation to understand and control the benefits our members receive. For example, gaining or losing access to a provider based on which network is selected is a benefit issue. Making sure coverages like prescription drugs are driven by safety and appropriateness not the rebates a plan collects is a benefits issue.

By boiling down the union's role down to simply pushing and shoving over plan options and cost-sharing, this plan either fundamentally misunderstands the role of collective bargaining or intentionally undermines the union's role in directly determining benefits for its members.

We also don't see the need to adopt an elaborate benchmarking approach on an ongoing basis. Continuous benchmarking makes some sense in the private sector because firms actually compete on a quarterly basis for labor or customers in national and international markets. But governments don't compete against each other in the same way – that's why government bonds are more stable than most corporate bonds. So there is no inherent rationale for adopting an ongoing comparative framework except to reduce benefits and/or shift costs.

It is important to recognize the collective bargaining process has served the state well. For example, the UAW alone saved the state \$270 million in the last round of bargaining dealing with issues just like these without going off on expensive and time consuming tangents. Collective bargaining has also set the pattern for attrition programs that have saved the state many hundreds of millions of dollars in the last decade. These are not dollars to sneeze at.

The bottom line there is little practical reason to trade a proven process for a far-flung idea. We also question why the Legislature is moving so quickly to restructure public employee health care when federal health reform is imminent. We should not waste resources nor leave opportunities on the table by moving out of sync with the feds.

Finally -- and in conclusion -- it is the UAW's legal opinion that only the Civil Service Commission has the authority to set terms and conditions of state employees through collective bargaining. The Legislature has no right or authority to diminish collective bargaining for public employees in any way.

These are the reactions of the UAW to date. Thank you for your time and attention.